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SUBJECT: AZERBAIJAN: 2007 REPORT ON INVESTMENT DISPUTES AND
EXPROPRIATION CLAIMS

REF: STATE 55422

11. (U) Sensitive but unclassified. This cable contains
proprietary business information and should be handled
accordingly.

12. (U) This cable responds to request in reftel for
information on current business disputes and
expropriation claims for inclusion in the Department's annual
report to Congress required by the FY94-95 Foreign
Relations Authorization Act.

13. (SBU) Embassy reports the following cases:

a. Claimant A

b. 2004

c. Claimant A is an airline based in Georgia that served
regional routes to Azerbaijan, Armenia, and Russia (Sochi and
Minvodi). Claimant A had a commercial agreement with AZAL,
the Azerbaijani flag carrier, governing frequency of flights
and fares on its Baku-Tbilisi route. AZAL admitted that
beginning in March 2004 it sold tickets below the negotiated
price under the "political" direction of both Azerbaijani and
Georgian presidents, which claimant A contended was a
violation of the commercial agreement.

Claimant A stopped flights to Baku on September 2, 2004 on
grounds that the route was no longer profitable given
AZAL's actions. In October 2004 Claimant A ceased operations
entirely, allegedly due to the failure of its
Baku-Tbilisi route. In November 2004 the GOG sent
notification to Claimant A of the potential withdrawal of
its license if the company failed to resume flights. In
December 2004, the GOG officially withdrew Claimant A's
license.

In previous years, the U.S. Embassy in Baku held multiple
meetings with AZAL and Azerbaijani Civil Aviation Authority
(CAA) officials, which included an observation of direct
talks between Claimant A and AZAL airline representatives.
The Embassy also raised this issue with the Minister of
Economic Development and the President's Office. The Embassy
is not aware of any legal action taken within Azerbaijan to
date with respect to this claim, and we therefore have not
taken any action during the reporting period.

a. Claimant B

b. 1996

c. Claimant B established a joint venture with the City of
Baku to develop a piece of property and build a trade

center. Claimant B claims that the then-Mayor of Baku transferred title of a piece of property to the joint venture in 1996. Claimant B claims that its subsequent efforts to develop the property were frustrated by the refusal of the City to issue necessary permits for construction. Claimant B has been unable to gain access to the property, and the current Mayor of Baku denies that title to the property was ever transferred to the joint venture.

The U.S. Ambassador met with the Mayor and Claimant B partners in May 2004 to move forward discussion of the claims. In early 2006, Claimant B partners reported to the Embassy some progress in pressing their claims to Azerbaijani government officials. As a result, in March 2006 the Embassy accompanied Claimant B partners to several meetings with government of Azerbaijan officials, including the mayor of Baku, Minister of Communications, and Minister of Economic Development. Following these meetings, Claimant B partners reported that some progress had been made toward resolving the dispute and that government officials appeared to be more interested in a resolution of the issue.

14. (SBU) Claimant A is Caucasus Airlines. The report of Claimant A's case is unchanged from the past year, as the Embassy has received no additional information regarding the claim. Claimant B is the Baku World Trade Center Joint Venture. The report of Claimant B's case is unchanged from the past year, as the Embassy has received no additional information regarding the claim. The Embassy has not approached these firms to request a privacy waiver for the purposes of this cable.

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